

FENNVILLE PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2008

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Lamonte T. Lator
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Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fennville Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fennville Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2008, on our consideration of Fennville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xv and page 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fennville Public Schools' basic financial statements. The additional information on pages 30 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer, Costeniser & Ellis, P.C.

September 16, 2008

**FENNVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION & ANALYSIS**

FISCAL YEAR ENDING JUNE 30, 2008

Fennville Public Schools, a K-12 school district located in Allegan County, Michigan, is in its fifth year of implementation for the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements.

FINANCIAL HIGHLIGHTS

Below is a table showing the fund balances for the past seven years.

| <u>DATE</u> | <u>GENERAL FUND FUND BALANCE</u> | <u>DIFFERENCE</u> |
|---------------|--------------------------------------|-------------------|
| June 30, 2002 | \$ 815,213 | \$ (32,162) |
| June 30, 2003 | 906,648 | 91,435 |
| June 30, 2004 | 1,149,200 | 242,552 |
| June 30, 2005 | 1,479,503 | 303,303 |
| June 30, 2006 | 1,254,283 | (225,220) |
| June 30, 2007 | 1,006,356 | (247,927) |
| June 30, 2008 | 1,058,854 | 52,498 |

In 2007-08 the total general fund revenues exceeded \$12.20 million dollars with expenditures approximately \$12.15 million dollars. In 2006-07 the total revenues exceeded \$11.9 million dollars with expenditures approximately \$12.6 million dollars. Breaking the pattern of the previous two years, revenues during the 2007/08 school year rose by more than \$30,000 while district-wide expenditures were reduced by nearly a half million dollars. Since the 2002 fiscal year the District has increased the District fund equity by more than \$183,000, or about 1.5%.

The District continues to participate in short-term borrowing and borrowed \$1.98 million dollars during the year that was repaid in August 2008. The increased reliance on short-term borrowings to finance operations during the school year, especially until the first State aid payment in October, will require another increase in state aid borrowing again in 2008/09, with \$2.1 million dollars being borrowed to meet cash flow needs.

On June 14, 2004, the voters approved a \$25,760,000 bond for building a new elementary building, major renovations to the middle school, site renovations to the high school and a new community athletic center. These projects still have an outstanding balance in retainage owed to the construction manager, and a small balance to be used by the District (less than \$42,000).

As in the past several years the food service department was able to generate a surplus of more than \$40,000 and continues with an enviable fund balance in excess of \$260,000.

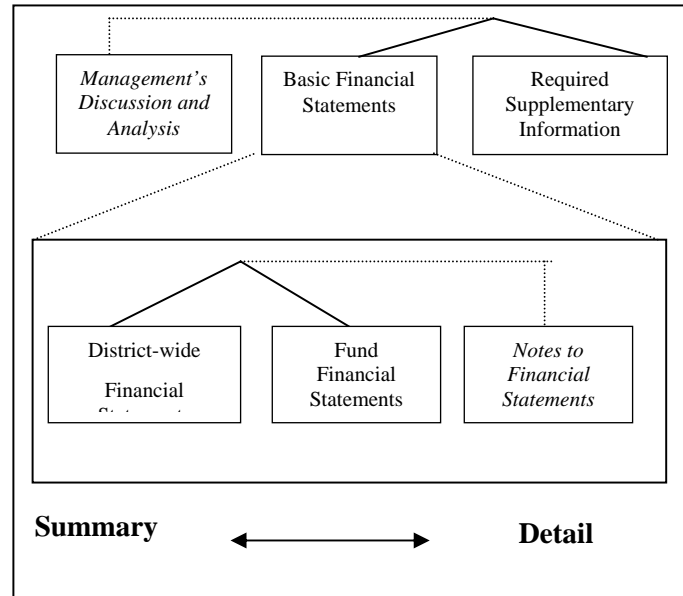
The athletic fund deficit reduced their on-hand dollars to less than \$600, and will need greater supplements in future years unless a new revenue source is found.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations in *more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

**Figure A-1
Organization of Fennville Public Schools’
Annual Financial Report**



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

| Figure A-2 Major Features of District-Wide and Fund Financial Statements | | | |
|---|--|---|---|
| | District-wide Statements | Fund Financial Statements | |
| | | Governmental Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance. | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | * Statement of net assets * Statement of activities | * Balance sheet * Statement of revenues, expenditures and changes in fund balances | * Statement of fiduciary net assets * Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term, FPS's funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT WIDE FINANCIAL STATEMENTS:

All of the District's assets and liabilities are reported in the district-wide financial statements and are on a full accrual basis that are similar to those used by private-sector companies. For example, capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district-wide financial statements. The difference between the District's assets and liabilities (net assets) are one way to measure the District's financial position. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

The current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation and administration. These activities are financed through the state foundation grant, property taxes and various federal and state programs.

The District's combined net assets at the beginning of the fiscal year were \$4,383,333 and on June 30, 2008 they were \$4,152,713 which represents an decrease of \$230,620 as recorded in the Statement of Activities.

FUND FINANCIAL STATEMENTS

The fund financial statements are reported on a modified accrual basis and consist of governmental funds and fiduciary funds. Governmental funds include most of the District's basic services which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending on future District programs.

Fiduciary funds are for assets that belong to others, such as the scholarship fund and the student activities fund where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – In 2007-08, the District's combined net assets as of June 30, 2008 totaled \$4,152,713 which was slightly less than as of June 30, 2007, \$4,383,333.

| Table A-3 | | |
|---|---------------------|---------------------|
| Fennville Public School's Net Assets | | |
| | 2008 | 2007 |
| Current and other assets | \$ 4,863,103 | \$ 5,782,323 |
| Noncurrent assets | 27,930,847 | 28,560,214 |
| Total assets | 32,793,950 | 34,342,537 |
| Long-term debt outstanding | 24,920,854 | 25,687,572 |
| Other liabilities | 3,720,383 | 4,271,632 |
| Total liabilities | 28,641,237 | 29,959,204 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 2,419,257 | 2,110,020 |
| Restricted | 531,030 | 485,082 |
| Unrestricted | 1,202,426 | 1,788,231 |
| Total net assets | \$ 4,152,713 | \$ 4,383,333 |

| Table A-4 | | |
|--|---------------------|---------------------|
| Changes in Fennville Public Schools' Net Assets | | |
| | 2008 | 2007 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 234,280 | \$ 227,910 |
| Federal and state categorical grants | 1,794,240 | 1,789,738 |
| General revenues: | | |
| Property taxes | 3,588,478 | 3,405,051 |
| Investment earnings | 95,105 | 390,335 |
| State aid – unrestricted | 8,599,616 | 8,339,272 |
| Intermediate sources | 262,543 | 247,359 |
| Other | 36,979 | 48,745 |
| Total revenues | <u>14,611,241</u> | <u>14,448,410</u> |
| Expenses: | | |
| Instruction | 7,820,518 | 8,315,219 |
| Support services | 4,731,571 | 4,580,271 |
| Community services | 172,712 | 36,616 |
| Food services | 703,043 | 623,271 |
| Athletics | 205,161 | 243,881 |
| Interest on long-term debt | 1,208,856 | 1,048,891 |
| Total expenses | <u>14,841,861</u> | <u>14,848,149</u> |
| Change in net assets | <u>\$ (230,620)</u> | <u>\$ (399,739)</u> |

STATE OF MICHIGAN UNRESTRICTED AID (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- The Michigan State Aid Act per student foundation allowance which was established under Proposal A has increased from \$4,754 per student in 1995 to \$7,204 per student in 2007-2008. The per student amount increased by \$119 from prior year or a 1.5% increase.
- Student Enrollment - The blended count is 75 percent of current year's fall count and 25 percent of prior year's February count.
- The District's non-homestead levy for 2007-08 was 18.0000 mills which the voters approved in May 2007.

Student Enrollment

Student enrollments increased by nearly 70 students from fall count to fall count. Based on current winter class size, a small decrease in pupils is expected in fall of 2008.

GOVERNMENTAL FUNDS

Results of Operations:

For the fiscal years ended June 30, 2008 and 2007, the district-wide results of operations were:

| | 2008 | 2007 |
|---|----------------------|----------------------|
| REVENUES: | | |
| Local sources: | | |
| Property taxes | \$ 3,592,399 | \$ 3,401,403 |
| Investment earnings | 95,105 | 390,335 |
| Food sales, athletics and community service | 202,184 | 203,417 |
| Other | 69,075 | 72,893 |
| Total local sources | 3,958,763 | 4,068,048 |
| State sources | 9,253,962 | 8,959,149 |
| Federal sources | 1,139,894 | 1,169,861 |
| Intermediate sources | 262,543 | 247,359 |
| TOTAL REVENUES | \$ 14,615,162 | \$ 14,444,417 |
| EXPENDITURES: | | |
| Current: | | |
| Instruction | \$ 7,088,012 | \$ 7,410,468 |
| Supporting services | 4,824,687 | 5,218,523 |
| Food service activities | 694,286 | 649,145 |
| Athletic activities | 193,520 | 235,478 |
| Community service activities | 62,802 | 18,292 |
| Debt service: | | |
| Principal | 460,704 | 305,000 |
| Interest expense | 1,170,609 | 1,000,056 |
| Other | 1,499 | 293,045 |
| Capital outlay | 431,105 | 11,951,428 |
| TOTAL EXPENDITURES | \$ 14,927,224 | \$ 27,081,435 |

The following summarizes the revenues and expenses by comparing fiscal year 2008 to 2007 as shown in the previous Results of Operations.

Revenues:

- Property taxes continue to increase due to increased taxable values and assessments.
- Interest earnings decreased with the reduction of investments in the capital projects fund, and the much lower rates the District was able to obtain on their own investment opportunities.
- State sources increased thanks to the higher foundation grant and higher student numbers.
- Federal sources also showed a slight decrease with reduction in federal program funds.
- Intermediate sources increased slightly over the previous year.
- The opening of the Community Athletic Center (CAC) was a huge success, with over 1,200 community members becoming members. The offset was the increase in utility, cleaning and personnel costs to operate the center. The Board is in an ongoing discussion of how to operate the CAC without spending large general fund dollars to supplement it.
- The continued success of the food service department is a two edged sword. Too much fund equity can jeopardize federal funding, yet the desire to offer more food options to students requires greater start up costs. As the year progresses the District will be looking at an indirect cost to recover some of the cleaning and utility costs paid by the general fund.

Expenses:

- Salaries and benefits decreased as the District offered an early retirement incentive which was taken by twelve staff members.
- Food service continues to show a profit.
- Athletic service expenses decreased, but this was offset by lower District revenues due to the required change in sports seasons.
- Transportation expenses were higher due to increased field trips and higher fuel costs. With increased fuel costs it is anticipated that more students will be riding busses as opposed to driving to schools which may increase the need for bus fleet turnover. With a cost of more than \$70,000 per bus this will require that the District plan their future purchases carefully to reduce their reliance on installment purchasing.

NON-HOMESTEAD PROPERTY TAXES LEVIED FOR GENERAL OPERATIONS

The Fennville Public School District voters approved the 18 mill renewal in May 2007 for one year and again in May 2008. The State of Michigan allows each school district to levy 18 mills on non-homestead property and the foundation grant is calculated after the 18 mills. The approval of this renewal resulted in nearly two million in revenue for the District in fiscal year 2007-08.

Following is a table showing the past six years of property taxes collected on non-homestead property.

| Fiscal year | Non-Homestead Tax | |
|-------------|-------------------|---------|
| | Levy | Mills |
| 2007 - 2008 | \$ 1,999,762 | 18.0000 |
| 2006 - 2007 | 1,891,005 | 18.0000 |
| 2005 - 2006 | 1,739,017 | 18.0000 |
| 2004 - 2005 | 1,564,900 | 17.5338 |
| 2003 - 2004 | 1,516,817 | 18.0000 |
| 2002 - 2003 | 1,407,377 | 18.0000 |
| 2001 - 2002 | 1,175,266 | 18.0000 |
| 2000 - 2001 | 1,143,337 | 18.0000 |

The 18 mill renewal was approved by the Fennville voters again in 2008.

GENERAL FUND AND BUDGET HIGHLIGHTS

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The 2007-08 budget was approved on June 25, 2007.

The budget was revised several times throughout the fiscal, with final revisions being approved in April of 2008, representing changes that were estimated during the month of March. The final budget revision anticipated a higher revenue figure than was budgeted in June and equally higher expenditures than the original budget had anticipated. Actual results showed expenditures decreased by about 1% over the original budget, while revenues came in about 1.5% less than their originally predicted level.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008, the District had invested \$34.4 million in a broad range of capital assets.

| Table A - 5 Fennville Public Schools' Capital Assets | | | | |
|---|----------------------|--------------------------|----------------------|---------------------|
| | 2008 | | | 2007 |
| | Cost | Accumulated depreciation | Net book value | Net book value |
| Land and construction in process | \$ 337,337 | \$ - | \$ 337,337 | \$ 933,658 |
| Buildings & additions | 28,740,110 | 4,403,386 | 24,336,724 | 24,041,913 |
| Land improvements | 1,735,401 | 141,673 | 1,593,728 | 1,602,327 |
| Transportation equipment | 1,326,918 | 918,571 | 408,347 | 483,219 |
| Computer & office equipment | 1,789,706 | 803,006 | 986,700 | 1,224,047 |
| Other | 451,007 | 367,445 | 83,562 | 83,486 |
| Total | <u>\$ 34,380,479</u> | <u>\$ 6,634,081</u> | <u>\$ 27,746,398</u> | <u>\$28,368,650</u> |

LONG-TERM DEBT

The 2004 construction and remodeling bond was approved by the voters on June 14, 2004 in the amount of \$25,760,000. The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. See Note 7 for more information.

| Table A - 6 Outstanding Long-term Debt | | |
|---|----------------------|----------------------|
| | 2008 | 2007 |
| General obligation bonds - net | \$ 24,347,589 | \$ 24,742,890 |
| Limited obligation bonds | 118,666 | 118,666 |
| Compensated absences | 38,533 | 36,271 |
| Bus loans | 156,529 | 204,660 |
| Voluntary severance plan | 220,000 | 330,000 |
| Other loans | 846,556 | 923,844 |
| | <u>\$ 25,727,873</u> | <u>\$ 26,356,331</u> |

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that could significantly affect the financial health of the District in the future.

- The foundation allowance from the State of Michigan has been signed into law as of August 2008. The chief problem is that once again the foundation increase (\$112) is much less than the rate of inflation. With the increase in fuel, food and utility costs, it is becoming extremely difficult for the District to try to maintain a balanced budget.
- The District has received allocation letters for amount of funds awarded on many of the federal and state programs and the allocations have been reduced. This will hamper the District's ability to provide services to At Risk students in the coming year.
- The teacher's contract has been settled and those results are reflected in the 2008-09 budget. The District is a plaintiff along with other school districts in a lawsuit against the State, seeking to rectify inequities in the State's formula for appropriating special education aid to the districts.
- A slight enrollment decrease is anticipated for the upcoming school year, which will continue to make it difficult for the District to balance their budget. In addition the health insurance rates for new teaching staff members, those hired after May of 2007, has increased by nearly 30% for the upcoming year.
- The Capital project fund will be closed out during fiscal 2009. The District's financial advisors have determined that the District will not face an arbitrage requirement, which will allow the last money to be spent on District projects.
- The costs for fuel and gas have also been estimated and will be revised if prices are higher than expected. It is hoped that the peak of these costs has passed, at least for the 08/09 fiscal year.
- The District is anticipating receiving nearly \$50,000 in USF funding, as well as \$40,000 to \$50,000 in energy savings from the energy retrofit. Neither of these areas have been included in the initial budget which the board approved in June.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the revenues it receives. If you have any questions about this report or need any additional information, please contact Business Services Office, Fennville Public Schools, Fennville, Michigan 49408, phone 269-561-7331.

BASIC FINANCIAL STATEMENTS

**FENNVILLE PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

| | <u>Governmental activities</u> |
|---|------------------------------------|
| ASSETS | |
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 970,186 |
| Investments | 1,862,226 |
| Receivables: | |
| Accounts receivable | 93,033 |
| Interest receivable | 34 |
| Taxes receivable | 252 |
| Due from other governmental units | 1,701,289 |
| Inventories | 119,449 |
| Prepaid expenditures | 48,751 |
| Restricted cash and cash equivalents - capital projects | <u>67,883</u> |
| TOTAL CURRENT ASSETS | <u>4,863,103</u> |
| NONCURRENT ASSETS: | |
| Deferred charges, net of amortization | 184,449 |
| Capital assets | 34,380,479 |
| Less accumulated depreciation | <u>(6,634,081)</u> |
| TOTAL NONCURRENT ASSETS | <u>27,930,847</u> |
| TOTAL ASSETS | <u><u>\$ 32,793,950</u></u> |

See notes to financial statements.

| | <u>Governmental activities</u> |
|---|---|
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 33,939 |
| Retainage payable | 5,654 |
| Due to other governmental units | 46,184 |
| Note payable | 1,980,000 |
| Accrued interest | 265,335 |
| Accrued salaries and related items | 578,282 |
| Deferred revenue | 3,970 |
| Current portion of bonded debt obligations | 515,000 |
| Current portion of other long-term obligations | 177,498 |
| Current portion of compensated absences | 4,521 |
| Current portion of voluntary severance plan | <u>110,000</u> |
| TOTAL CURRENT LIABILITIES | <u>3,720,383</u> |
| NONCURRENT LIABILITIES: | |
| Noncurrent portion of bonded debt obligations | 23,832,589 |
| Noncurrent portion of other long-term obligations | 944,253 |
| Noncurrent portion of compensated absences | 34,012 |
| Noncurrent portion of voluntary severance plan | <u>110,000</u> |
| TOTAL NONCURRENT LIABILITIES | <u>24,920,854</u> |
| TOTAL LIABILITIES | <u>28,641,237</u> |
| NET ASSETS: | |
| Invested in capital assets, net of related debt | 2,419,257 |
| Restricted for debt service | 531,030 |
| Unrestricted | <u>1,202,426</u> |
| TOTAL NET ASSETS | <u>4,152,713</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 32,793,950</u></u> |

**FENNVILLE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

| Functions/programs | Expenses | Program revenues | | Governmental activities |
|---|----------------------|----------------------|---------------------|-----------------------------------|
| | | Charges for services | Operating grants | Net (expense) |
| | | | | revenue and changes in net assets |
| Governmental activities: | | | | |
| Instruction | \$ 7,820,518 | \$ - | \$ 1,085,642 | \$ (6,734,876) |
| Support services | 4,731,571 | 13,976 | 154,368 | (4,563,227) |
| Community services | 172,712 | 18,120 | 313 | (154,279) |
| Food services | 703,043 | 168,356 | 553,917 | 19,230 |
| Athletics | 205,161 | 33,828 | - | (171,333) |
| Interest on long-term debt | 1,208,856 | - | - | (1,208,856) |
| Total governmental activities | <u>\$ 14,841,861</u> | <u>\$ 234,280</u> | <u>\$ 1,794,240</u> | <u>(12,813,341)</u> |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 1,997,332 |
| Property taxes, levied for debt service | | | | 1,591,146 |
| Investment earnings | | | | 95,105 |
| State sources | | | | 8,599,616 |
| Intermediate sources | | | | 262,543 |
| Other | | | | <u>36,979</u> |
| Total general revenues | | | | <u>12,582,721</u> |
| CHANGE IN NET ASSETS | | | | (230,620) |
| NET ASSETS, beginning of year | | | | <u>4,383,333</u> |
| NET ASSETS, end of year | | | | <u>\$ 4,152,713</u> |

**FENNVILLE PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | General Fund | 2005 Debt service | Capital projects fund | Other nonmajor governmental funds | Total governmental funds |
|--------------------------------------|---------------------|-------------------|-----------------------|-----------------------------------|--------------------------|
| ASSETS | | | | | |
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 82,179 | \$ 638,503 | \$ - | \$ 249,504 | \$ 970,186 |
| Investments | 1,763,891 | 98,331 | - | 4 | 1,862,226 |
| Receivables: | | | | | |
| Property taxes receivable | 252 | - | - | - | 252 |
| Accounts receivable | 88,566 | - | - | 4,467 | 93,033 |
| Interest | - | 13 | 21 | - | 34 |
| Due from other governmental units | 1,696,952 | - | - | 4,337 | 1,701,289 |
| Due from other funds | 4,961 | - | - | - | 4,961 |
| Inventories | 108,726 | - | - | 10,723 | 119,449 |
| Prepaid expenditures | 48,751 | - | - | - | 48,751 |
| Restricted cash and cash equivalents | - | - | 67,883 | - | 67,883 |
| TOTAL ASSETS | \$ 3,794,278 | \$ 736,847 | \$ 67,904 | \$ 269,035 | \$ 4,868,064 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES: | | | | | |
| Accounts payable | \$ 13,939 | \$ - | \$ 20,000 | \$ - | \$ 33,939 |
| Retainage payable | - | | 5,654 | - | 5,654 |
| Due to other funds | - | 1,202 | - | 3,759 | 4,961 |
| Due to other governmental units | 46,184 | - | - | - | 46,184 |
| Note payable | 1,980,000 | - | - | - | 1,980,000 |
| Accrued interest | 60,720 | - | - | - | 60,720 |
| Accrued salaries and related items | 578,282 | - | - | - | 578,282 |
| Deferred revenue | 56,299 | - | - | 3,970 | 60,269 |
| TOTAL LIABILITIES | 2,735,424 | 1,202 | 25,654 | 7,729 | 2,770,009 |

| | General Fund | 2005 Debt service | Capital projects fund | Other nonmajor governmental funds | Total governmental funds |
|--|---------------------|-------------------|-----------------------|-----------------------------------|--------------------------|
| FUND BALANCES: | | | | | |
| Reserved for inventories | \$ 108,726 | \$ - | \$ - | \$ 10,723 | \$ 119,449 |
| Reserved for prepaid expenditures | 48,751 | - | - | - | 48,751 |
| Reserved for debt service | - | 735,645 | - | - | 735,645 |
| Reserved for capital outlay | - | - | 42,250 | - | 42,250 |
| Designated for subsequent years expenditures | 92,000 | - | - | - | 92,000 |
| Unreserved, undesignated | 809,377 | - | - | 250,583 | 1,059,960 |
| TOTAL FUND BALANCES | 1,058,854 | 735,645 | 42,250 | 261,306 | 2,098,055 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 3,794,278 | \$ 736,847 | \$ 67,904 | \$ 269,035 | \$ 4,868,064 |
| Total governmental fund balances | | | | | \$ 2,098,055 |

Total governmental fund balances

Amounts reported for governmental activities in the statement of net assets are different because:

| | | |
|--|--------------------|------------|
| Value of amortized bond issuance costs | \$ 203,246 | |
| Accumulated amortization | <u>(18,797)</u> | 184,449 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | | |
| The cost of the capital assets is | 34,380,479 | |
| Accumulated depreciation is | <u>(6,634,081)</u> | 27,746,398 |

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

| | |
|---|---------------------|
| Bonds payable | (24,347,589) |
| Other long-term debt | (1,121,751) |
| Compensated absences | (38,533) |
| Voluntary severance plan | (220,000) |
| Accrued interest is not included as a liability in government funds, it is recorded when paid | (204,615) |
| Deferred revenue at June 30, 2008, expected to be collected after September 1, 2008 | 56,299 |
| Net assets of governmental activities | \$ 4,152,713 |

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

| | <u>General Fund</u> | <u>2005 Debt service</u> | <u>Capital projects fund</u> | <u>Other nonmajor governmental funds</u> | <u>Total governmental funds</u> |
|--|---------------------|------------------------------|----------------------------------|--|---|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Property taxes | \$ 2,001,253 | \$ 1,591,146 | \$ - | \$ - | \$ 3,592,399 |
| Tuition | 18,120 | - | - | - | 18,120 |
| Investment earnings | 57,285 | 21,685 | 13,221 | 2,914 | 95,105 |
| Food sales, athletics, and community service | - | - | - | 202,184 | 202,184 |
| Other | 41,153 | - | - | 9,802 | 50,955 |
| Total local sources | 2,117,811 | 1,612,831 | 13,221 | 214,900 | 3,958,763 |
| State sources | 9,209,949 | - | - | 44,013 | 9,253,962 |
| Federal sources | 629,990 | - | - | 509,904 | 1,139,894 |
| Intermediate school districts | 262,543 | - | - | - | 262,543 |
| Total revenues | 12,220,293 | 1,612,831 | 13,221 | 768,817 | 14,615,162 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction | 7,088,012 | - | - | - | 7,088,012 |
| Supporting services | 4,824,687 | - | - | - | 4,824,687 |
| Food service activities | - | - | - | 694,286 | 694,286 |
| Athletic activities | - | - | - | 193,520 | 193,520 |
| Community service activities | 62,802 | - | - | - | 62,802 |
| Capital outlay | - | - | - | - | - |
| Construction | | | 416,365 | | 416,365 |
| Other | | | 14,740 | | 14,740 |
| EXPENDITURES (Concluded): | | | | | |
| Debt service: | | | | | - |
| Principal repayment | \$ 35,704 | \$ 425,000 | \$ - | \$ - | \$ 460,704 |
| Interest | - | 1,170,609 | - | - | 1,170,609 |
| Other | - | 1,499 | - | - | 1,499 |
| Total expenditures | 12,011,205 | 1,597,108 | 431,105 | 887,806 | 14,927,224 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 209,088 | 15,723 | (417,884) | (118,989) | (312,062) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Operating transfers from other funds | | - | - | 156,590 | 156,590 |
| Operating transfers to other funds | (156,590) | - | - | - | (156,590) |
| Total other financing sources (uses) | (156,590) | - | - | 156,590 | - |
| NET CHANGE IN FUND BALANCES | 52,498 | 15,723 | (417,884) | 37,601 | (312,062) |
| FUND BALANCES: | | | | | |
| Beginning of year | 1,006,356 | 719,922 | 460,134 | 223,705 | 2,410,117 |
| End of year | \$ 1,058,854 | \$ 735,645 | \$ 42,250 | \$ 261,306 | \$ 2,098,055 |

**FENNVILLE PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BLANACES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Net change in fund balances total governmental funds \$ (312,062)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|-------------|
| Depreciation expense | (1,059,776) |
| Capital outlay | 437,524 |

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

| | |
|---|-----------|
| Accrued interest payable, beginning of the year | 234,840 |
| Accrued interest payable, end of the year | (204,615) |

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

| | |
|--|----------|
| Payments on bonded debt | 425,000 |
| Payments on other long-term debt | 125,419 |
| Amortization of bond issuance costs | (7,115) |
| Amortization of deferred loss on refunding | (17,385) |
| Amortization of bond discounts | (12,314) |

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

| | |
|---|---------|
| Deferred revenue, beginning of the year | (4,173) |
| Deferred revenue, end of the year | 56,299 |

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

| | |
|--|------------------|
| Accrued compensated, beginning of the year | 36,271 |
| Accrued compensated absences and termination benefits, end of the year | (38,533) |
| Accrued voluntary severance plan, beginning of the year | 330,000 |
| Accrued voluntary severance plan, end of the year | <u>(220,000)</u> |

| | |
|--|-----------------------------------|
| Change in net assets of governmental activities | <u><u>\$ (230,620)</u></u> |
|--|-----------------------------------|

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008

| | <u>Agency fund</u> |
|---------------------------------|---------------------------|
| ASSETS: | |
| Cash and cash equivalents | \$ 163,130 |
| Investments | <u>77</u> |
| | <u><u>\$ 163,207</u></u> |
| LIABILITIES: | |
| Accounts payable | \$ 24,313 |
| Due to student and other groups | <u>138,894</u> |
| | <u><u>\$ 163,207</u></u> |

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fennville Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Fennville Public Schools (the "District") is governed by the Fennville Public School's Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2005 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects* fund accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The capital projects fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital projects fund. The project for which the 2004 Serial Bonds were issued was considered complete on November 7, 2007 and the cumulative expenditures recognized for the construction period were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

| | <u>Capital projects</u> |
|--|-------------------------|
| Revenue and other financing sources (uses) | <u>\$ 26,579,464</u> |
| Expenditures | <u>\$ 26,537,214</u> |

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

| Fund | Mills |
|---|-------|
| General fund - Non-homestead | 18.00 |
| Debt service fund - Homestead and non-homestead | 5.10 |

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

| | |
|-------------------------------|--------------|
| Buildings and additions | 50 years |
| Furniture and other equipment | 5 - 20 years |

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2008, the District had the following investments

| Investment Type | Fair value | Weighted average maturity (years) | Standard & Poor's Rating | % |
|--------------------------------------|--------------------------|--|---|----------------------|
| MILAF External Investment pool - CMF | \$ 19,501 | 0.0027 | AAAm | 16.2% |
| MILAF External Investment pool - MAX | 2,516 | 0.0027 | AAAm | 2.1% |
| Dreyfus Treasury Cash Management | <u>98,331</u> | 0.0027 | AAAm | <u>81.7%</u> |
| Total fair value | <u><u>\$ 120,348</u></u> | | | <u><u>100.0%</u></u> |

| | |
|-------------------------------------|----------------------|
| Portfolio weighted average maturity | <u><u>0.0027</u></u> |
|-------------------------------------|----------------------|

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$2,960,659 of the District's bank balance of \$3,229,043 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the above figures are bank money market deposits of \$1,745,468. The carrying value on the books for deposits at the end of the year was \$2,943,154.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

| | |
|---|----------------------------|
| Deposits - including fiduciary funds of \$163,207 | \$ 2,943,154 |
| Investments | <u>120,348</u> |
| | <u><u>\$ 3,063,502</u></u> |

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts are reported in the financial statements as listed below. Certain interest bearing deposits have been reported as investments.

| | |
|---|---------------------|
| Fiduciary fund: | |
| Cash and cash equivalents | \$ 163,130 |
| Investments | 77 |
| District wide: | |
| Current assets: | |
| Cash and cash equivalents | 970,186 |
| Investments | 1,862,226 |
| Restricted cash and cash equivalents - capital projects | <u>67,883</u> |
| | <u>\$ 3,063,502</u> |

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Receivables at June 30, 2008 consist of the following:

| | |
|----------------------|-----------------------------|
| | Government wide |
| | <u> </u> |
| State aid | \$ 1,648,841 |
| Federal revenue | 46,993 |
| Intermediate sources | <u>5,455</u> |
| | <u>\$ 1,701,289</u> |

No allowance for doubtful accounts is considered necessary based on previous experience.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|--------------------------------------|-------------------------|-------------|------------|--------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 337,337 | \$ - | \$ - | \$ 337,337 |
| Construction in progress | 596,321 | - | 596,321 | - |
| Total assets not being depreciated | 933,658 | - | 596,321 | 337,337 |
| Other capital assets: | | | | |
| Building and additions | 27,846,166 | 893,944 | - | 28,740,110 |
| Land improvements | 1,661,071 | 74,330 | - | 1,735,401 |
| Computer and office equipment | 1,748,797 | 40,909 | - | 1,789,706 |
| Outdoor equipment | 426,345 | 24,662 | - | 451,007 |
| Transportation equipment | 1,326,918 | | - | 1,326,918 |
| Subtotal | 33,009,297 | 1,033,845 | - | 34,043,142 |
| Accumulated depreciation: | | | | |
| Building and additions | 3,804,253 | 599,133 | - | 4,403,386 |
| Land improvements | 58,744 | 82,929 | - | 141,673 |
| Computer and office equipment | 524,750 | 278,256 | - | 803,006 |
| Outdoor equipment | 342,859 | 24,586 | - | 367,445 |
| Transportation equipment | 843,699 | 74,872 | - | 918,571 |
| Total accumulated depreciation | 5,574,305 | 1,059,776 | - | 6,634,081 |
| Net capital assets being depreciated | 27,434,992 | (25,931) | - | 27,409,061 |
| Net governmental capital assets | \$ 28,368,650 | \$ (25,931) | \$ 596,321 | \$ 27,746,398 |

Depreciation for the fiscal year ended June 30, 2008 amounted to \$1,059,776. The District allocated depreciation to the various activities as follows:

| | |
|---------------------|---------------------|
| Instruction | \$ 835,548 |
| Support services | 93,920 |
| Community services | 109,910 |
| Food service | 8,757 |
| Athletic activities | 11,641 |
| | <u>\$ 1,059,776</u> |

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2008, the District has outstanding a \$1,980,000 revenue note (state aid note) dated August 20, 2007. The note, which has an interest rate of 3.68%, matures August 20, 2008. The note is secured by the full faith and credit of the District as well as pledged state aid.

| Balance June 30, 2007 | Additions | Deletions | Balance June 30, 2008 |
|--------------------------|---------------------|---------------------|--------------------------|
| <u>\$ 1,700,000</u> | <u>\$ 1,980,000</u> | <u>\$ 1,700,000</u> | <u>\$ 1,980,000</u> |

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of long term obligations for the District for the year ended June 30, 2008:

| | General obligation bonds | Limited obligation bonds | Compensated absences | Voluntary severance plan | Bus loans |
|--------------------------|-----------------------------|--------------------------------|-------------------------|-----------------------------|-------------------|
| Balance July 1, 2007 | \$ 24,742,890 | \$ 118,666 | \$ 36,271 | \$ 330,000 | \$ 204,660 |
| Additions | | | 2,262 | | |
| Deletions | <u>(395,301)</u> | | | <u>(110,000)</u> | <u>(48,131)</u> |
| Balance June 30, 2008 | 24,347,589 | 118,666 | 38,533 | 220,000 | 156,529 |
| Less current portion | <u>(515,000)</u> | <u>(46,172)</u> | <u>(4,521)</u> | <u>(110,000)</u> | <u>(50,099)</u> |
| Total due after one year | <u>\$ 23,832,589</u> | <u>\$ 72,494</u> | <u>\$ 34,012</u> | <u>\$ 110,000</u> | <u>\$ 106,430</u> |

| | Roof replacement loan | Land purchase | Data storage | Total |
|--------------------------|-----------------------------|-------------------|-----------------|----------------------|
| Balance July 1, 2007 | \$ 645,823 | \$ 258,064 | \$ 19,957 | \$ 26,356,331 |
| Additions | | | | 2,262 |
| Deletions | <u>(51,513)</u> | <u>(20,786)</u> | <u>(4,989)</u> | <u>(630,720)</u> |
| Balance June 30, 2008 | 594,310 | 237,278 | 14,968 | 25,727,873 |
| Less current portion | <u>(54,170)</u> | <u>(22,068)</u> | <u>(4,989)</u> | <u>(807,019)</u> |
| Total due after one year | <u>\$ 540,140</u> | <u>\$ 215,210</u> | <u>\$ 9,979</u> | <u>\$ 24,920,854</u> |

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – LONG-TERM DEBT (Continued)

Bonds payable at June 30, 2008 is comprised of the following issues:

| | |
|---|-----------------------------|
| 1998 limited obligation bonds (Durant bonds) due in annual installments of \$16,880 to \$46,172 through May 15, 2013, with interest at 4.76%. Certain state aid payments have been pledged as security. | \$ 118,666 |
| 2004 serial bonds due in annual installments of \$475,000 to \$1,295,000 through May 1, 2029 with interest from 3.00% to 5.00%. | 17,330,000 |
| 2007 serial bonds due in annual installments of \$35,000 to \$1,640,000 through May 1, 2034 with interest from 4.00% to 4.20%. | 7,785,000 |
| Less: deferred amount on bond refunding | (447,675) |
| Less: issuance discounts | (319,736) |
| Land purchase - January 2007 purchase of land. Loan due in monthly installments of \$2,975 through December 14, 2017 with an interest rate of 6.00%. | 237,278 |
| Roof replacement - March 2007 replacement of the high school roof. Loan due in monthly installments of \$6,907 through May 10, 2017 with an interest rate of 5.04%. | 594,310 |
| Bus loan - October 13, 2005, 5 new buses. Loan due in annual installments of \$50,099 to \$54,281 through October 13, 2011 with interest at 4.10%. | 156,529 |
| AAESA Data storage purchase - April 2007 purchase of data warehouse storage. Loan due in annual installments of \$4,989 through April 2011. | <u>14,968</u> |
| Total bonded debt and other long-term obligations | 25,469,340 |
| Voluntary severance plan | 220,000 |
| Compensated absences | <u>38,533</u> |
| Total general long-term debt | <u><u>\$ 25,727,873</u></u> |

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$7,345,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2008, including interest of \$18,683,960 are as follows:

| Year ending June 30, | Principal | Interest | Total |
|-------------------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 692,498 | \$ 1,183,735 | \$ 1,876,233 |
| 2010 | 659,412 | 1,147,938 | 1,807,350 |
| 2011 | 691,732 | 1,122,312 | 1,814,044 |
| 2012 | 662,926 | 1,094,751 | 1,757,677 |
| 2013 | 698,684 | 1,068,178 | 1,766,862 |
| 2014 - 2018 | 3,811,499 | 4,878,529 | 8,690,028 |
| 2019 - 2023 | 4,370,000 | 4,009,238 | 8,379,238 |
| 2024 - 2028 | 5,685,000 | 2,810,273 | 8,495,273 |
| 2029 - 2033 | 7,325,000 | 1,300,126 | 8,625,126 |
| 2034 | 1,640,000 | 68,880 | 1,708,880 |
| | 26,236,751 | 18,683,960 | 44,920,711 |
| Deferred amount on bond refinancing | (447,675) | | (447,675) |
| Issuance discounts | (319,736) | | (319,736) |
| Voluntary severance | 220,000 | | 220,000 |
| Compensated absences | 38,533 | | 38,533 |
| | <u>\$ 25,727,873</u> | <u>\$ 18,683,960</u> | <u>\$ 44,411,833</u> |

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

Interest expense (all funds) for the year ended June 30, 2008 was approximately \$1,171,000.

The District had entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of either \$18,000 or \$24,000. This amount is paid over three equal payments of either \$6,000 or \$8,000 annually. There are currently thirteen employees entitled to future payments of \$24,000 and one for \$18,000. The liability has been recorded at the face amount as the discounted present value approximates face amount of liability.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2008 are as follows:

| Receivable fund | | Payable fund | |
|-----------------|----------|--------------|-----------------|
| General fund | \$ 4,961 | Food service | \$ 3,759 |
| | | Debt service | 1,202 |
| | | | <u>\$ 4,961</u> |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded):

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 30, 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were \$1,050,590, \$1,186,179 and \$1,085,328, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits and post-employment benefits which is the responsibility of the State of Michigan.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TRANSFERS

The general fund transferred \$156,590 to the athletic fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations.

NOTE 12 - SUBSEQUENT EVENTS

The District has approved borrowing \$2,100,000 for fiscal year 2009 to replace the note payable as described in Note 6.

NOTE 13 - COMMITMENTS

The District has approximately \$42,000 committed to complete its \$25,760,000 bond proposal construction program.

REQUIRED SUPPLEMENTARY INFORMATION

**FENNVILLE PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

| | Original budget | Final budget | Actual | Variance with final budget- positive (negative) |
|--|----------------------------|-------------------------|---------------------|--|
| REVENUES: | | | | |
| Local sources | \$ 2,175,607 | \$ 2,231,000 | \$ 2,117,811 | \$ (113,189) |
| State sources | 8,597,448 | 9,115,000 | 9,209,949 | 94,949 |
| Federal sources | 675,559 | 681,000 | 629,990 | (51,010) |
| Intermediate school districts | 303,236 | 364,000 | 262,543 | (101,457) |
| Total revenues | 11,751,850 | 12,391,000 | 12,220,293 | (170,707) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 5,209,769 | 5,327,257 | 5,328,674 | (1,417) |
| Added needs | 1,555,692 | 1,707,362 | 1,685,033 | 22,329 |
| Adult and continuing education | 74,981 | 74,981 | 74,305 | 676 |
| Total instruction | 6,840,442 | 7,109,600 | 7,088,012 | 21,588 |
| Supporting services: | | | | |
| Pupil | 504,412 | 583,171 | 538,661 | 44,510 |
| Instructional staff | 332,651 | 492,257 | 371,412 | 120,845 |
| General administration | 383,209 | 382,171 | 415,439 | (33,268) |
| School administration | 814,989 | 754,686 | 808,359 | (53,673) |
| Business | 290,652 | 302,258 | 265,038 | 37,220 |
| Operation/maintenance | 1,539,073 | 1,730,686 | 1,741,033 | (10,347) |
| Pupil transportation | 636,888 | 665,171 | 671,620 | (6,449) |
| Central | 13,100 | 13,000 | 13,125 | (125) |
| Total supporting services | 4,514,974 | 4,923,400 | 4,824,687 | 98,713 |
| Community services | 80,038 | 64,000 | 62,802 | 1,198 |
| Debt service | 36,000 | 36,000 | 35,704 | 296 |
| Total expenditures | 11,471,454 | 12,133,000 | 12,011,205 | 121,795 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 280,396 | 258,000 | 209,088 | (48,912) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers to other funds | (143,682) | (157,000) | (156,590) | 410 |
| NET CHANGE IN FUND BALANCE | <u>\$ 136,714</u> | <u>\$ 101,000</u> | 52,498 | <u>\$ (48,502)</u> |
| FUND BALANCE: | | | | |
| Beginning of year | | | 1,006,356 | |
| End of year | | | <u>\$ 1,058,854</u> | |

ADDITIONAL INFORMATION

**FENNVILLE PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2008**

| | <u>Special revenue funds</u> | | Total nonmajor governmental funds |
|--|------------------------------|-----------------|--|
| | <u>Food Service</u> | <u>Athletic</u> | |
| ASSETS | | | |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 248,979 | \$ 525 | \$ 249,504 |
| Investments | - | 4 | 4 |
| Accounts receivable | 4,467 | - | 4,467 |
| Due from other governmental units | 4,337 | - | 4,337 |
| Inventories | 10,723 | - | 10,723 |
| | | | |
| TOTAL ASSETS | <u>\$ 268,506</u> | <u>\$ 529</u> | <u>\$ 269,035</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Due to other funds | \$ 3,759 | \$ - | \$ 3,759 |
| Deferred revenue | 3,970 | - | 3,970 |
| | | | |
| TOTAL LIABILITIES | <u>7,729</u> | <u>-</u> | <u>7,729</u> |
| FUND BALANCES: | | | |
| Reserved for inventories | 10,723 | - | 10,723 |
| Unreserved/undesignated | 250,054 | 529 | 250,583 |
| | | | |
| TOTAL FUND BALANCES | <u>260,777</u> | <u>529</u> | <u>261,306</u> |
| | | | |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 268,506</u> | <u>\$ 529</u> | <u>\$ 269,035</u> |

**FENNVILLE PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2008**

| | Special revenue funds | | Total nonmajor governmental funds |
|--|------------------------------|-----------------|--|
| | Food Service | Athletic | |
| REVENUES: | | | |
| Sales | \$ 168,356 | \$ - | \$ 168,356 |
| State aid | 44,013 | - | 44,013 |
| Federal aid | 509,904 | - | 509,904 |
| Admissions | - | 33,828 | 33,828 |
| Investment earnings | 2,726 | 188 | 2,914 |
| Other | 9,802 | - | 9,802 |
| | | | |
| Total revenues | 734,801 | 34,016 | 768,817 |
| | | | |
| EXPENDITURES: | | | |
| Salaries | 201,242 | 113,184 | 314,426 |
| Benefits | 72,908 | 28,406 | 101,314 |
| Purchased services | 21,659 | 31,151 | 52,810 |
| Supplies and materials | 41,035 | 8,000 | 49,035 |
| Food purchase | 310,743 | | 310,743 |
| Donated commodities | 42,718 | | 42,718 |
| Capital outlay | 3,579 | 5,332 | 8,911 |
| Other expenses | 402 | 7,447 | 7,849 |
| | | | |
| Total expenditures | 694,286 | 193,520 | 887,806 |
| | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 40,515 | (159,504) | (118,989) |
| | | | |
| OTHER FINANCING SOURCES (USES): | | | |
| Operating transfers from other funds | - | 156,590 | 156,590 |
| | | | |
| NET CHANGE IN FUND BALANCES | 40,515 | (2,914) | 37,601 |
| | | | |
| FUND BALANCES: | | | |
| Beginning of year | 220,262 | 3,443 | 223,705 |
| | | | |
| End of year | \$ 260,777 | \$ 529 | \$ 261,306 |

FENNVILLE PUBLIC SCHOOLS
AGENCY FUNDS – STUDENT ACTIVITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2008

| | Balance 07/01/07 | Additions | Deductions | Balance 06/30/08 |
|---------------------------------|---------------------|-----------|------------|---------------------|
| All School Play Fund | \$ 1,973 | \$ 7,167 | \$ 5,467 | \$ 3,673 |
| Alternative Education | 348 | | | 348 |
| Animal Science | 36 | | | 36 |
| Annual Fund - Yearbook | 5,938 | 12,676 | 9,996 | 8,618 |
| Art Department | 86 | | | 86 |
| ArtStar | 907 | 1,350 | 1,301 | 956 |
| Athletic Contributions | (7,763) | 6,217 | 2,674 | (4,220) |
| Auditorium | 470 | | | 470 |
| Band Club | 8,557 | 29,744 | 28,811 | 9,490 |
| Baseball Fundraiser | 317 | 950 | 1,581 | (314) |
| Bo Mason Memorial Fund | 964 | | | 964 |
| Boys Basketball Fundraiser | 1,825 | 3,604 | 4,017 | 1,412 |
| CAC Classes | - | 18,150 | 14,928 | 3,222 |
| Camp Blackhawk Fundraisers | 394 | | | 394 |
| Cheerleaders | (1,645) | 1,100 | 1,589 | (2,134) |
| Childrens Theater | 2,000 | | | 2,000 |
| Class of: | | | | |
| 1997 | 157 | | | 157 |
| 1999 | 1,428 | | | 1,428 |
| 2003 | 987 | | | 987 |
| 2004 | 1,673 | | | 1,673 |
| 2005 | (236) | | | (236) |
| 2006 | 1,554 | | | 1,554 |
| 2007 | 2,407 | 310 | 1,193 | 1,524 |
| 2008 | 3,829 | 4,706 | 6,037 | 2,498 |
| 2009 | 2,169 | 9,216 | 8,553 | 2,832 |
| 2010 | 658 | 375 | 54 | 979 |
| 2011 | - | 1,302 | 528 | 774 |
| Community Athletic Center | 4,003 | 16,664 | 6,595 | 14,072 |
| Community Partnership Institute | 102 | | | 102 |
| Conflict Managers | 340 | 428 | 334 | 434 |

**FENNVILLE PUBLIC SCHOOLS
AGENCY FUNDS – STUDENT ACTIVITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2008**

| | Balance 07/01/07 | Additions | Deductions | Balance 06/30/08 |
|------------------------------------|---------------------|-----------|------------|---------------------|
| Cross Country Fundraiser | \$ 115 | \$ - | \$ - | \$ 115 |
| D.A.R.E | 58 | | | 58 |
| DI/OM Fundraisers | 2,016 | 510 | 335 | 2,191 |
| Ed Foundation Mini-Grants | 3,375 | 4,899 | 6,182 | 2,092 |
| Eighth Grade Fund | (2,632) | 49,661 | 49,571 | (2,542) |
| Elementary Art Department | 1,050 | | | 1,050 |
| Elementary Dance | 554 | 675 | 426 | 803 |
| Elementary Library Fund | 4,185 | 10,980 | 10,028 | 5,137 |
| Elementary Office Fund (Lower) | 499 | 2,034 | 2,350 | 183 |
| Elementary Office Fund (Upper) | 525 | 1,764 | 717 | 1,572 |
| Elementary Playground | 4,639 | 832 | 5,471 | - |
| Elementary Pop Fund | 1,298 | 3,435 | 3,199 | 1,534 |
| Elementary Student Council (Lower) | 1,556 | 1,303 | 1,998 | 861 |
| Elementary Student Council (Upper) | 9,801 | 12,053 | 10,793 | 11,061 |
| Elementary Yearbook | 2,538 | 1,780 | 5,939 | (1,621) |
| Environmental Club | 1,181 | | | 1,181 |
| Fennville Chamber Scholarship | 1,000 | | 1,000 | - |
| Fennville Foundation | (1,025) | | | (1,025) |
| Football Fundraisers | (700) | 3,620 | 1,899 | 1,021 |
| Fund Raisers | 156 | | | 156 |
| Future Educators of America | 23 | | | 23 |
| Future Farmers of America | 1,067 | | | 1,067 |
| Girls Basketball Fundraisers | 1,248 | 871 | 1,413 | 706 |
| Hero Team | 443 | | | 443 |
| High School Choir | 2,644 | 12,694 | 15,835 | (497) |
| High School Library Fund | 725 | | | 725 |
| High School Picture Fund | 2,063 | | | 2,063 |
| High School Student Council | 847 | 1,490 | 1,237 | 1,100 |
| High School Technology Fund | 1,260 | | | 1,260 |
| Hunt Memorial Fund | 625 | | 1 | 624 |

**FENNVILLE PUBLIC SCHOOLS
AGENCY FUNDS – STUDENT ACTIVITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2008**

| | Balance 07/01/07 | Additions | Deductions | Balance 06/30/08 |
|--------------------------------------|---------------------|-----------|------------|---------------------|
| Journalism Class | \$ 131 | \$ - | \$ - | \$ 131 |
| Middle School Cheerleading | 726 | 825 | 855 | 696 |
| Middle School Art Club | 614 | | 107 | 507 |
| Middle School Fund | (1,190) | 9,413 | 6,089 | 2,134 |
| Middle School Library | 914 | 4,091 | 3,309 | 1,696 |
| Middle School Pop Fund | 90 | 902 | 883 | 109 |
| Middle School Student Council | 3,905 | 2,753 | 2,544 | 4,114 |
| Miscellaneous contingency | 11,810 | 976 | 5,501 | 7,285 |
| Music Revolving Fund | 29 | | | 29 |
| National Honor Society | 4 | 883 | 797 | 90 |
| One in a Million | 4,170 | 1,450 | 3,980 | 1,640 |
| Parent Teachers Organization | 4,206 | 12,197 | 10,612 | 5,791 |
| Pearl Project Fund | 1,453 | 2,748 | 1,734 | 2,467 |
| Pearl Student Council | 1,308 | | 1,308 | - |
| Performing Arts Day | - | 5,597 | 4,750 | 847 |
| Perrigo Scholarship | 620 | | | 620 |
| Pre-School Co-Op | 5,034 | 2,782 | 3,878 | 3,938 |
| Professional Library | 3 | | | 3 |
| Project Graduation | 267 | 21,666 | 21,137 | 796 |
| Quiz Bowl | 202 | | | 202 |
| RIF Program | 446 | 872 | 710 | 608 |
| Rocket Football | (515) | 4,547 | 2,768 | 1,264 |
| SAC Athletic Activities | 162 | 900 | 1,050 | 12 |
| SADD | 239 | | | 239 |
| Saugatuck/Douglas Garden Club | 4,000 | | 1,000 | 3,000 |
| Seventh Grade Fund | 335 | 9,750 | 10,076 | 9 |
| Sixth Grade Fund | 1,486 | 3,621 | 4,237 | 870 |
| Ski Club | 1,574 | 2,211 | 2,264 | 1,521 |
| Softball Fundraiser | 102 | 2,404 | 790 | 1,716 |
| Sorensen Memorial Staff Development. | 2,560 | | | 2,560 |

**FENNVILLE PUBLIC SCHOOLS
 AGENCY FUNDS – STUDENT ACTIVITIES
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND LIABILITIES BY ACTIVITY
 YEAR ENDED JUNE 30, 2008**

| | Balance 07/01/07 | Additions | Deductions | Balance 06/30/08 |
|---|---------------------|-------------------|-------------------|---------------------|
| Spanish Club | \$ 9 | \$ 2,347 | \$ 2,311 | \$ 45 |
| Students Assisting Students Association | 327 | 588 | 655 | 260 |
| Student Coke Fund | 633 | 4,467 | 4,545 | 555 |
| Student Relief Fund | 2,372 | 2,028 | 2,918 | 1,482 |
| Summer Recreation | (22) | 1,065 | 703 | 340 |
| Superintendent Office Fund | 131 | 73 | 70 | 134 |
| Teachers Coke Fund (HS) | 352 | 552 | 734 | 170 |
| Third Grade Fundraiser | 19 | | | 19 |
| Track Fundraiser | 25 | 551 | 624 | (48) |
| VFW Scholarship | 2,000 | | 1,500 | 500 |
| Volleyball Fundraiser | 988 | 910 | 881 | 1,017 |
| Wrestling Fundraising | 405 | 730 | 617 | 518 |
| Youth Committee | 518 | | | 518 |
| Youth League Summer Ball | (2,530) | 9,490 | 3,590 | 3,370 |
| | <u>\$ 124,524</u> | <u>\$ 335,949</u> | <u>\$ 321,579</u> | <u>\$ 138,894</u> |

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS 1998 DEBT
1998 SCHOOL IMPROVEMENT BONDS (DURANT)
YEAR ENDED JUNE 30, 2008

| <u>Year ending June 30,</u> | <u>Interest rate</u> | <u>Principal amount</u> | <u>Interest amount</u> | <u>Total</u> |
|---------------------------------|--------------------------|-----------------------------|----------------------------|-------------------|
| 2009 | 4.76% | \$ 46,172 | \$ 14,820 | \$ 60,992 |
| 2010 | | 16,880 | 3,452 | 20,332 |
| 2011 | | 17,684 | 2,648 | 20,332 |
| 2012 | | 18,525 | 1,806 | 20,331 |
| 2013 | | <u>19,405</u> | <u>924</u> | <u>20,329</u> |
| | | <u>\$ 118,666</u> | <u>\$ 23,650</u> | <u>\$ 142,316</u> |

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorized the payment of the State Aid Payments directly to the Authority's Depository.

**FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2008**

\$25,760,000 Bonds issued August 1, 2004 (\$7,740,000 was refunded in 2007)

| Principal due May 1, | Interest due | | Debt service requirement for fiscal year | |
|-------------------------|---------------------|---------------------|---|----------------------|
| | May 1, | November 1, | June 30, | Amount |
| \$ 475,000 | \$ 397,384 | \$ 397,385 | 2009 | \$ 1,269,769 |
| 505,000 | 389,072 | 389,072 | 2010 | 1,283,144 |
| 530,000 | 379,919 | 379,919 | 2011 | 1,289,838 |
| 555,000 | 369,982 | 369,981 | 2012 | 1,294,963 |
| 585,000 | 359,575 | 359,575 | 2013 | 1,304,150 |
| 615,000 | 347,875 | 347,875 | 2014 | 1,310,750 |
| 645,000 | 335,575 | 335,575 | 2015 | 1,316,150 |
| 680,000 | 322,675 | 322,675 | 2016 | 1,325,350 |
| 715,000 | 308,650 | 308,650 | 2017 | 1,332,300 |
| 750,000 | 293,456 | 293,456 | 2018 | 1,336,912 |
| 790,000 | 277,331 | 277,332 | 2019 | 1,344,663 |
| 830,000 | 260,050 | 260,050 | 2020 | 1,350,100 |
| 870,000 | 241,375 | 241,375 | 2021 | 1,352,750 |
| 915,000 | 219,625 | 219,625 | 2022 | 1,354,250 |
| 965,000 | 196,750 | 196,750 | 2023 | 1,358,500 |
| 1,015,000 | 172,625 | 172,625 | 2024 | 1,360,250 |
| 1,065,000 | 147,250 | 147,250 | 2025 | 1,359,500 |
| 1,120,000 | 120,625 | 120,625 | 2026 | 1,361,250 |
| 1,175,000 | 92,625 | 92,625 | 2027 | 1,360,250 |
| 1,235,000 | 63,250 | 63,250 | 2028 | 1,361,500 |
| 1,295,000 | 32,375 | 32,375 | 2029 | 1,359,750 |
| <u>\$ 17,330,000</u> | <u>\$ 5,328,044</u> | <u>\$ 5,328,045</u> | | <u>\$ 27,986,089</u> |

The above bonds were authorized at an election June 14, 2004 and have interest rates from 3.00% to 5.00%. The bonds were issued for the purpose of erecting, furnishing and equipping a new elementary school; erecting, furnishing and equipping an addition or additions to, and partially remodeling and re-equipping the middle school and high school buildings; partially remodeling a portion of the existing elementary building to use for adult/alternative education and administrative office purposes; erecting, furnishing and equipping a community athletic center; acquiring and installing education technology; constructing and equipping improvements to the outdoor athletic facilities, including a running track, soccer field and playground; and developing and improving sites.

**FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2008**

\$7,825,000 Refunding bonds issued March 31, 2007

| Principal due May 1, | Interest due | | Debt service requirement for fiscal year | |
|-------------------------|---------------------|---------------------|---|----------------------|
| | May 1, | November 1, | June 30, | Amount |
| \$ 40,000 | \$ 162,697 | \$ 162,698 | 2009 | \$ 365,395 |
| | 161,898 | 161,897 | 2010 | 323,795 |
| | 161,897 | 161,898 | 2011 | 323,795 |
| | 161,898 | 161,897 | 2012 | 323,795 |
| | 161,897 | 161,898 | 2013 | 323,795 |
| | 161,898 | 161,897 | 2014 | 323,795 |
| | 161,897 | 161,898 | 2015 | 323,795 |
| | 161,898 | 161,897 | 2016 | 323,795 |
| | 161,897 | 161,898 | 2017 | 323,795 |
| | 161,898 | 161,897 | 2018 | 323,795 |
| | 161,897 | 161,898 | 2019 | 323,795 |
| | 161,898 | 161,897 | 2020 | 323,795 |
| | 161,897 | 161,898 | 2021 | 323,795 |
| | 161,898 | 161,897 | 2022 | 323,795 |
| | 161,897 | 161,898 | 2023 | 323,795 |
| | 161,898 | 161,897 | 2024 | 323,795 |
| | 161,897 | 161,898 | 2025 | 323,795 |
| | 161,898 | 161,897 | 2026 | 323,795 |
| 35,000 | 161,897 | 161,898 | 2027 | 358,795 |
| 40,000 | 161,172 | 161,171 | 2028 | 362,343 |
| 45,000 | 160,341 | 160,342 | 2029 | 365,683 |
| 1,405,000 | 159,408 | 159,408 | 2030 | 1,723,816 |
| 1,465,000 | 130,254 | 130,253 | 2031 | 1,725,507 |
| 1,525,000 | 99,855 | 99,855 | 2032 | 1,724,710 |
| 1,590,000 | 67,830 | 67,830 | 2033 | 1,725,660 |
| 1,640,000 | 34,440 | 34,440 | 2034 | 1,708,880 |
| <u>\$ 7,785,000</u> | <u>\$ 3,890,152</u> | <u>\$ 3,890,152</u> | | <u>\$ 15,565,304</u> |

The bonds were approved by the board of education at the December 6, 2006 meeting to refinance \$7,740,000 of the 2004 bond issuance. The bonds will refinance the 2029 through 2034 payments. The bonds will carry interest rates from 4.00% to 4.20%.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF LAND PURCHASE
YEAR ENDED JUNE 30, 2008**

\$268,000 for purchase of 33.5 acres of land, loan dated January 14, 2007

| <u>Principal</u> | <u>Interest</u> | <u>June 30,</u> | <u>Amount</u> |
|-------------------|------------------|-----------------|-------------------|
| \$ 22,068 | \$ 13,636 | 2009 | \$ 35,704 |
| 23,429 | 12,275 | 2010 | 35,704 |
| 24,874 | 10,830 | 2011 | 35,704 |
| 26,408 | 9,296 | 2012 | 35,704 |
| 28,037 | 7,667 | 2013 | 35,704 |
| 29,766 | 5,938 | 2014 | 35,704 |
| 31,602 | 4,102 | 2015 | 35,704 |
| 33,551 | 2,153 | 2016 | 35,704 |
| 17,543 | 308 | 2017 | 17,851 |
| <u>\$ 237,278</u> | <u>\$ 66,205</u> | | <u>\$ 303,483</u> |

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF ROOF REPLACEMENT
YEAR ENDED JUNE 30, 2008**

\$650,000 for the replacement of the high school roof, loan dated March 10, 2007.

| <u>Principal</u> | <u>Interest</u> | <u>June 30,</u> | <u>Amount</u> |
|--------------------------|--------------------------|-----------------|--------------------------|
| \$ 54,170 | \$ 28,713 | 2009 | \$ 82,883 |
| 56,965 | 25,919 | 2010 | 82,884 |
| 59,903 | 22,981 | 2011 | 82,884 |
| 62,993 | 19,891 | 2012 | 82,884 |
| 66,242 | 16,642 | 2013 | 82,884 |
| 69,659 | 13,225 | 2014 | 82,884 |
| 73,252 | 9,632 | 2015 | 82,884 |
| 77,030 | 5,853 | 2016 | 82,883 |
| <u>74,096</u> | <u>1,880</u> | 2017 | <u>75,976</u> |
| <u><u>\$ 594,310</u></u> | <u><u>\$ 144,736</u></u> | | <u><u>\$ 739,046</u></u> |

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF BUS LOAN
YEAR ENDED JUNE 30, 2008**

\$250,900 for purchase of 5 buses, loan dated October 13, 2005

| <u>Principal due October 13,</u> | <u>Interest due October 13,</u> | <u>June 30,</u> | <u>Amount</u> |
|--------------------------------------|-------------------------------------|-----------------|--------------------------|
| \$ 50,099 | \$ 6,402 | 2009 | \$ 56,501 |
| 52,149 | 4,353 | 2010 | 56,502 |
| <u>54,281</u> | <u>2,220</u> | 2011 | <u>56,501</u> |
| <u><u>\$ 156,529</u></u> | <u><u>\$ 12,975</u></u> | | <u><u>\$ 169,504</u></u> |

**FENNVILLE PUBLIC SCHOOLS
AAESA SCHEDULE OF DATA STORAGE LOAN
YEAR ENDED JUNE 30, 2008**

\$19,957 for the purchase of data storage, loan dated April 2007.

| <u>Principal</u> | <u>June 30,</u> |
|-------------------------|-----------------|
| \$ 4,989 | 2009 |
| 4,989 | 2010 |
| <u>4,990</u> | 2011 |
| <u><u>\$ 14,968</u></u> | |

FENNVILLE PUBLIC SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2008

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Lamonte T. Lator
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Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Fennville Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of and for the year ended June 30, 2008, which collectively comprise Fennville Public Schools' basic financial statements and have issued our report thereon dated September 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fennville Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fennville Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fennville Public Schools' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fennville Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Fennville Public Schools in a separate letter dated September 16, 2008.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamay, Costeniser & Ellis, P.C.

September 16, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Fennville Public Schools

Compliance

We have audited the compliance of Fennville Public Schools with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Fennville Public Schools' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Fennville Public Schools' management. Our responsibility is to express an opinion on Fennville Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fennville Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fennville Public Schools' compliance with those requirements.

In our opinion, Fennville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Fennville Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fennville Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Fennville Public Schools' internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs as 2008-1 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated September 16, 2008. Our audit was performed for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fennville Public Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Fennville Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costenizer & Ellis, P.C.

September 16, 2008

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal grantor/pass-through grantor/ program title | Federal CFDA number | Pass- through grantor's number | Approved grant award amount | Accrued (deferred) revenue July 1, 2007 | (memo only) Prior year expenditures | Adjustments | Current year expenditures | Current year cash receipts | Accrued (deferred) revenue June 30, 2008 |
|--|---------------------------|---|-----------------------------------|--|--|-------------|---------------------------------|----------------------------------|---|
| <u>U.S. Department of Agriculture:</u> | | | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | | | |
| Child Nutrition Cluster: | | | | | | | | | |
| National School Lunch Program - Breakfast | 10.553 | 081970 | \$ 81,463 | \$ - | \$ - | \$ - | \$ 81,463 | \$ 81,463 | \$ - |
| National School Lunch Program - Breakfast | | 071970 | 8,220 | - | - | - | 8,220 | 8,220 | - |
| | | | 89,683 | - | - | - | 89,683 | 89,683 | - |
| National School Lunch Program - Section 4 | 10.555 | 081960 | 280,322 | - | - | - | 280,322 | 280,322 | - |
| National School Lunch Program - Section 4 | | 081950 | 39,928 | - | - | - | 39,928 | 39,928 | - |
| National School Lunch Program - Section 11 | | 071960 | 38,175 | - | - | - | 38,175 | 38,175 | - |
| National School Lunch Program - Section 11 | | 071950 | 5,452 | - | - | - | 5,452 | 5,452 | - |
| Local Wellness Policy | | 060980 | 500 | - | - | - | - | - | - |
| | | | 364,377 | - | - | - | 363,877 | 363,877 | - |
| Summer Food Service Program For Children | 10.559 | 071900 | 1,345 | - | - | - | 1,345 | 1,345 | - |
| | | 070900 | 12,849 | - | - | - | 12,849 | 12,849 | - |
| | | | 14,194 | - | - | - | 14,194 | 14,194 | - |
| Total Child Nutrition Cluster | | | 468,254 | - | - | - | 467,754 | 467,754 | - |
| Food distribution: | | | | | | | | | |
| Entitlement Commodities | 10.550 | | 36,574 | | | | 42,150 | 42,150 | - |
| Total U.S. Department of Agriculture | | | 504,828 | | | | 509,904 | 509,904 | - |

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal grantor/pass-through grantor/ program title | Federal CFDA number | Pass- through grantor's number | Approved grant award amount | Accrued (deferred) revenue July 1, 2007 | (memo only) Prior year expenditures | Adjustments | Current year expenditures | Current year cash receipts | Accrued (deferred) revenue June 30, 2008 |
|--|---------------------------|---|-----------------------------------|--|--|-------------|---------------------------------|----------------------------------|---|
| <u>U.S. Department of Education:</u> | | | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | | | |
| E.C.I.A. Title I | 84.010 | 081530-0708 | \$ 372,456 | \$ - | \$ - | \$ - | \$ 329,703 | \$ 320,772 | \$ 8,931 |
| E.C.I.A. Title I | | 071530-0607 | 341,861 | 71,818 | 316,342 | (41,097) | 25,519 | 97,337 | (41,097) |
| E.S.E.A. Title I 2% School Improvement | | 051550-0506 | - | (10,377) | - | - | 10,377 | - | - |
| | | | 714,317 | 61,441 | 316,342 | (41,097) | 365,599 | 418,109 | (32,166) |
| Migrant Summer Formula | 84.011 | 081830-2008 | 120,501 | - | - | | 36,689 | - | 36,689 |
| Migrant Summer Formula | | 071830-2007 | 72,596 | 9,702 | 9,702 | | 62,894 | 72,596 | - |
| Migrant Regular Formula | | 081890-0708 | 101,405 | - | - | | 95,137 | 91,336 | 3,801 |
| Migrant Regular Formula | | 071890-0607 | 137,226 | 40,193 | 131,311 | | 5,915 | 46,108 | - |
| | | | 431,728 | 49,895 | 141,013 | | 200,635 | 210,040 | 40,490 |
| Special Education Grants to States | 84.027A | 070440-0607 | 4,000 | 814 | 814 | | | 814 | - |
| Title V LEA Allocation | 84.298 | 080250-0708 | 3,200 | - | - | | 3,035 | - | 3,035 |
| Technical Literacy Challenge Fund | 84.318 | 084290-0708 | 3,479 | - | - | | 1,926 | - | 1,926 |
| English Language Acquisition | 84.365A | 080580-0708 | 60,315 | - | - | | 55,983 | 54,441 | 1,542 |
| English Language Acquisition | | 070580-0607 | 29,427 | 29,427 | - | | - | 29,427 | - |
| | | | 89,742 | 29,427 | - | | 55,983 | 83,868 | 1,542 |

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

| Federal grantor/pass-through grantor/ program title | Federal CFDA number | Pass- through grantor's number | Approved grant award amount | Accrued (deferred) revenue July 1, 2007 | (memo only) Prior year expenditures | Adjustments | Current year expenditures | Current year cash receipts | Accrued (deferred) revenue June 30, 2008 |
|---|---------------------------|---|-----------------------------------|--|--|--------------------|---------------------------------|----------------------------------|---|
| Title IIA, Improving Teacher Quality | 84.367 | 080520-0708 | \$ 72,140 | \$ - | \$ - | \$ - | \$ 19,535 | \$ 33,553 | (14,018) |
| Title IIA, Improving Teacher Quality | | 070520-0607 | 82,377 | 10,082 | 67,486 | | 14,891 | 24,973 | - |
| | | | 154,517 | 10,082 | 67,486 | | 34,426 | 58,526 | (14,018) |
| Total passed through Michigan Department of Education | | | 1,400,983 | 151,659 | 525,655 | (41,097) | 661,604 | 771,357 | 809 |
| Passed through Allegan Area Education Service Agency Pre School Incentive | 84.173 | 060660/1 | 17,422 | | | | 17,422 | 17,422 | - |
| Passed through Ottawa Area Intermediate School District: Drug Free Schools | 84.186A | 062860-0607 | 6,094 | | | | 2,438 | 2,438 | - |
| Total U.S. Department of Education | | | 1,424,499 | 151,659 | 525,655 | (41,097) | 681,464 | 791,217 | 809 |
| TOTAL FEDERAL AWARDS | | | <u>\$1,929,327</u> | <u>\$ 151,659</u> | <u>\$ 525,655</u> | <u>\$ (41,097)</u> | <u>\$ 1,191,368</u> | <u>\$ 1,301,121</u> | <u>\$ 809</u> |

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Fennville Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. E.C.I.A. Title I, CFDA #84.010 was audited as a major program representing 30% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) and Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

| | |
|--|----------------------------|
| General fund | \$ 629,990 |
| Other nonmajor governmental funds | 509,904 |
| Amount refunded to the State of Michigan | <u>10,377</u> |
| | 1,150,271 |
| Adjustment | <u>41,097</u> |
| | <u><u>\$ 1,191,368</u></u> |

The District received a letter dated July 18, 2008 regarding Title I Grant #021530 Project Number 0607 from the Michigan Department of Education. The Department disallowed total costs of \$41,097 for being over function code 125 budget. The District reduced federal revenue in the general fund during the current year by \$41,097.

6. Federal Commodities

| | |
|-------------------------|-------------------------|
| Entitlement Commodities | <u><u>\$ 42,150</u></u> |
|-------------------------|-------------------------|

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

- Material weakness(es) identified: _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes _____ None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported with Sections 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|------------------------------------|
| 84.010 | E.C.I.A Title I |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Section III – Federal Award Findings and Questioned Costs

Finding 2008-1

Finding considered a significant deficiency

Federal Program: Title IIA, Improving Teacher Quality CFDA #84.367

Specific Requirement: Cash management

Criteria: The grant in question allows for timely requests for reimbursements.

Condition: The District incorrectly forecasted its cash needs throughout the school year, and consequently received cash advances in excess of immediate cash needs.

Context: During the year, the District experienced turnover in the business office. The District has reorganized and is now outsourcing certain services in this area. It is expected next year the outsourced staff will be able to take responsibility for the annual audit report.

Questioned Costs: The District may owe interest income earned back to the Michigan Department of Education. At June 30, 2008, \$14,018 had been received and not expended.

Effect: The District has excess cash and due to governmental balance at June 30, 2008. The District received the benefit of interest earnings on the unspent federal funds.

Cause: Premature request of funds which could not be spent within the subsequent 3 days.

Recommendation: The District should base its cash advance requests on estimated expenditures which meet the 3 day cash needs criteria.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Finding - 2007-1

Finding considered a significant deficiency

Criteria: Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit reporting in accordance with accounting principles generally accepted in the United States of America.

Condition: Currently, the District's staff prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Context: External assistance is required to prepare the annual audit report. During the year, the District experienced turnover in the business office. The District has reorganized and is now outsourcing certain services in this area. It is expected next year the outsourced staff will be able to take responsibility for the annual audit report.

Cause: The staff of the District does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements and certain reconciliations required by Governmental Accounting Standards Board Statement #34.

Effect: Utilization of the external auditor in preparing the footnotes and certain reconciliations to the financial statements assists management with the external reporting responsibility, to ensure their financial statements are accurate.

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Status: This issue has been resolved.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Finding - 2007-2

Finding considered a significant deficiency

Criteria: The general ledger should be adjusted monthly to reconciled balances.

Condition: During the year, bank reconciliations are performed, however necessary adjustments to the general ledger were not made for certain accounts.

Context: Failure to record adjustments internally to the general ledger increases the risk that the financial statements will be materially misstated. During the year, the District experienced turnover in the business office. The District has reorganized and is now outsourcing certain services in this area. It is expected next year the outsourced staff will be able to take responsibility for the annual audit report.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Cause: Lack of review over month-end procedures.

Recommendation: Monthly bank reconciliations should be reviewed by an appropriate individual every month. In addition, the reconciled balance should be compared to the general ledger to ensure all necessary adjustments to the general ledger are made in a timely manner. This will improve the accuracy of interim reporting.

Status: This issue has been resolved.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Finding - 2007-3

Finding considered a significant deficiency

Criteria: Year end adjustments were proposed by the external auditor and recorded by the client during the audit.

Condition: All accounts were not adjusted to accurately reflect the transactions taking place at year end.

Context: Failure to make material adjustments increases the risk that the financial statements will be materially misstated. During the year, the District experienced turnover in the business office. The District has reorganized and is now outsourcing certain services in this area. It is expected next year the outsourced staff will be able to take responsibility for all year end entries.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Cause: Oversight by the staff and management to record journal entries that properly reflect the transactions that have occurred at year end.

Recommendation: The District should review year end transactions and record journal entries for any transactions not recorded.

Status: This issue has been resolved.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Finding 2007-4

Finding considered a significant deficiency

Federal Program: E.S.E.A. Title I School Improvement CFDA #84.010

Specific Requirement: Cash management

Criteria: The grant in question allows for timely requests for reimbursements.

Condition: The District incorrectly forecasted its cash needs throughout the school year, and consequently received cash advances in excess of immediate cash needs.

Context: During the year, the District experienced turnover in the business office. The District has reorganized and is now outsourcing certain services in this area. It is expected next year the outsourced staff will be able to take responsibility for the annual audit report.

Questioned Costs: The District may owe interest income earned back to the Michigan Department of Education. At June 30, 2007, \$10,377 had been received and not expended. The excess cash was subsequently refunded after June 30, 2007, to the Michigan Department of Education.

Effect: The District has excess cash and due to governmental balance at June 30, 2007. The District received the benefit of interest earnings on the unspent federal funds.

Cause: Premature request of funds which could not be spent within the subsequent 3 days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

Status: See current year cash management finding.

**FENNVILLE PUBLIC SCHOOLS
CORRECTIVE ACTION PLAN
JUNE 30, 2008
CONTACT PERSON:
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Fennville Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2008.

Auditor: Maner, Costerisan & Ellis, P.C.
544 Cherbourg Drive, Suite 200
Lansing, Michigan 48917-5010

Audit Period: Year ended June 30, 2008

The finding from the June 30, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2008-1 Considered a significant deficiency

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the 3 day cash needs criteria.

Action to be taken: We believe this instance was isolated. New procedures and personnel are now responsible for federal requests of funds.



Lamonte T. Lator
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David M. Raeck
Robert E. Miller, Jr.
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James E. Nyquist
James R. Dedyne

Timothy H. Adams
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Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

September 16, 2008

To the Board of Education
Fennville Public Schools
Fennville, Michigan 5 Memorial Drive

In planning and performing our audit of the financial statements of Fennville Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Fennville Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 16, 2008 on the financial statements of Fennville Public Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

Prior Year Comments:**Federal Award Employee Time Documentation**

Employees who split their time between federal and non federal programs need to have the necessary documentation to substantiate their time allocation. Currently, the allocation documentation is reviewed, but not consistently documented. We recommend the District use the (MDE) format personal activity report (PAR) to ensure consistent documentation. The PAR report should be filled out monthly to verify that the time allocation of the individual's payroll is accurate, or adjustments can be made within a timely manner. Other documentation is available to determine only properly documented expenditures are charged to federal programs.

Current Year Comments:**Month-end Procedures Checklist**

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the District's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided District personnel with a month-end procedures checklist which can be customized further for your District. The purpose of this checklist is to provide District personnel with a centralized list of required month-end procedures, as well as, a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the District consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

Uninsured Bank Deposits

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

Computer passwords

We understand that the general computer passwords are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires these particular passwords to be changed, at a minimum, on an annual basis. A written policy will help ensure that password assignments, deletions, and modifications are performed in a manner consistent with management's intentions, resulting in improved internal controls over unauthorized access to the District's vital computer data.

Initial Listing of Cash Receipts Review

It is the District's policy that an initial list of cash receipts is prepared by an individual independent of the receipt and deposit process. However, it was noticed during the audit, the initial receipt is not always compared to the deposit made for the day on a normal reoccurring basis. To strengthen internal controls over the cash receipts process, we recommend the initial listing be compared to the deposits within a timely manner, including documenting the review process.

Payroll Review Process

It was noted during our walkthrough of the payroll process that the individual responsible for payroll preparation can add and remove employees from the payroll system. To further strengthen internal controls, we recommend individuals with Human Resource responsibilities be the only individuals who add employees to the payroll system. Review of the payroll registers should be performed periodically. This review process should consist of reviewing employee names for accuracy. This review process should be documented.

Federal Grant Budget Review

The Michigan Department of Education did a compliance review and disallowed expenditures because proper budget amendments had not been submitted. We recommend all federal grant budgets be reviewed throughout the year and amended when required.

Agency Funds Review

The District currently accounts for numerous activities in its agency funds. Many of these funds are not directly part of the District or are no longer part of the District activity. We recommend the District only account for funds which are current student activities.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Fennville Public Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costeniser & Ellis, P.C.



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September 16, 2008

To the Board of Education
Fennville Public Schools
5 Memorial Drive

We have audited the financial statements of Fennville Public Schools for the year ended June 30, 2008, and have issued our report thereon dated September 16, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Fennville Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Fennville Public Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Fennville Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Fennville Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Fennville Public Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 9, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fennville Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected:

We did not identify any sensitive estimates.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Fennville Public Schools financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fennville Public Schools auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

As disclosed in our single audit report, prior year federal expenditures of \$41,097 were disallowed. The District was notified of this by the Michigan Department of Education in July of 2008. This adjustment was recorded in the current year financial statements.

This information is intended solely for the use of the, Board of Directors and management of Fennville Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mamie Costeniser & Ellis, P.C.